



CITY OF BROWNINGTON, MISSOURI

YEAR ENDED JUNE 30, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-82
September 23, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Brownington, Missouri.

In 1885 Brownington was incorporated as a village; however, the governing body of Brownington has been operating as a fourth class city for many years. Brownington elects a Mayor and a Board of Aldermen similar to a fourth class city, and levies and collects taxes consistent with the laws governing a fourth class city. In addition, numerous ordinances and official records refer to Brownington as a city.

While state law allows voters within the Village to elect by majority vote to become a fourth class city, there is no documentation to indicate that the classification of Brownington was ever officially changed from a village to a fourth class city. We recommend the Board of Aldermen consult legal counsel to determine the status of Brownington's classification.

The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past several years, bids were either not solicited or bid documentation was not kept in some instances.

A company owned by the brother of a board member was paid \$2,355 in October 1997, for siding for the city's community building. The minutes of the board meeting where this purchase was discussed do not include details of the vote by specific board members, and give no indication that the brother abstained from voting on this purchase. While city officials indicate that the city paid a wholesale price for the siding, there is no indication that bids were obtained from any other source.

Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented so that the public has assurance that no city official or agent has improperly profited.

The City receives state motor vehicle-related revenues and deposits them into its General Fund. The Missouri Constitution requires motor vehicle-related revenues apportioned by the State of Missouri be expended for street-related purposes. The city has not established a separate fund or separate accounting for those revenues and expenditures and does not monitor the use of these funds to ensure compliance with the Missouri Constitution.

The city does not prepare and adopt annual budgets. State law requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year.

The city's ordinance book is not complete. Several ordinance numbers are not included in the book, two ordinances have the same number, and there is no index of all ordinances passed by the city. Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the ordinances be maintained in a complete, well organized, and up-to-date manner. Such items as duties and compensation of city officials and the annual tax levy should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

The City Clerk also serves as the City Treasurer, and with the exception of property tax collection, is responsible for most of the record keeping duties of the city. To safeguard against possible loss or misuse of funds, internal controls could be improved by segregating duties to the extent possible.

An annual maintenance plan for city streets has not been prepared. We recommend the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

CITY OF BROWNINGTON, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Board of Aldermen
City of Brownington
Deepwater, Missouri 64740

The State Auditor was petitioned under Section 29.230, RSMO, to audit the city of Brownington, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 1999. The objectives of this audit were to:

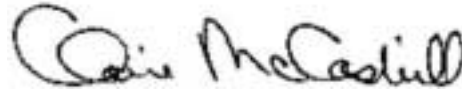
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Brownington, Missouri.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

July 12, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

CITY OF BROWNINGTON, MISSOURI
HISTORY AND ORGANIZATION

The city of Brownington is located in Henry County. Brownington was incorporated in 1885 as a village, but has been operating as a fourth-class city for many years. The population of the city in 1990 was 84.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 1999, were:

Elected Officials	Term Expires	Actual Compensation for the Year Ended June 30, 1999
Kenneth Miller, Mayor	April 2000	\$ 0
Barry Denison, Alderman	April 2001	0
Jim Pogue, Alderman	April 2000	0
Roscoe Walker, Alderman	April 2001	0
Russell Williams, Alderman	April 2000	0
 <u>Other Principal Officials</u>		
Carrie Lasswell, City Clerk		0
Kay Pogue, City Collector		\$ 0

Assessed valuation and tax rate information for 1998 and 1997 are as follows:

ASSESSED VALUATION

		1998	1997
Real estate	\$	169,050	165,330
Personal property		103,700	92,360
Railroad and utilities		48,108	54,265
Total	\$	<u>320,858</u>	<u>311,955</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$.61	.60
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A summary of the financial activity for the city of Brownington is presented below:

Year Ended June 30,
<u>1999</u> <u>1998</u>

RECEIPTS:

Property taxes	\$ 1,753	1,374
Franchise taxes	1,982	2,083
Motor fuel and motor vehicle taxes	3,078	3,275
Railroad and utility taxes	282	313
Poll rent	70	70
Sale of culverts	0	190
Miscellaneous	17	0
Total Receipts	<u>7,182</u>	<u>7,305</u>

DISBURSEMENTS:

Office expense	121	117
Maintenance and repair of building	210	5,391
Streets	6,075	4,603
Utilities	492	690
Insurance	327	327
Election costs	92	118
Salaries	0	50
Total Disbursements	<u>7,317</u>	<u>11,296</u>

RECEIPTS OVER (UNDER) DISBURSEMENTS

-135 -3,991

CASH BALANCE, July 1,

5,855 9,846

CASH BALANCE, June 30,

\$ 5,720 5,855

MANAGEMENT ADVISORY REPORT SECTION

CITY OF BROWNINGTON SUMMARY OF FINDINGS

1. City Classification (page 8)

The city is operating as a fourth class city but no documentation can be located to indicate the classification was ever officially changed from a village to a fourth class city.

2. Expenditures (pages 8-10)

The city does not have formal written bidding procedures. The city paid \$2,355 to a business owned by the brother of a board member which represents a potential conflict of interest. The city has not established a separate fund or accounting for motor vehicle-related receipts to ensure these amounts are spent only on street-related purposes.

3. Budgets and Financial Reporting (pages 10-11)

The city does not prepare or adopt annual budgets, semi-annual financial statements have not been published, and some annual financial reports have not been filed with the State Auditor's office as required by state law.

4. Property Tax Procedures (pages 11-12)

No independent verification of the tax books is performed. The City Collector does not prepare annual reports of tax collections and delinquent taxes. The City Collector does not charge the correct penalty on delinquent taxes.

5. Ordinances, Board Minutes, and Records (pages 12-14)

The city's ordinances are not complete and up-to-date, and ordinances have not been established in all instances where needed. The board minutes are not signed by the Mayor or a designated member of the board to attest to the accuracy. The tentative agendas posted for each board meeting do not disclose specific information to be discussed. The city's ordinances regarding public access to city records is not adequate.

6. Accounting Controls and Procedures (pages 14-15)

A separate individual has not been appointed to serve as City Treasurer and there is no independent review or supervision of the work performed by the City Clerk. Receipt slips are not issued for monies received. Checks and money orders are not restrictively endorsed until the deposit is prepared. City officials are not bonded.

7. Street Maintenance Plan (pages 15-16)

An annual maintenance plan for city streets has not been prepared.

CITY OF BROWNINGTON, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S CURRENT RECOMMENDATIONS

1.

City Classification

In 1885 Brownington was incorporated as a village; however, the governing body of Brownington has been operating as a fourth class city for many years. Brownington elects a Mayor and a Board of Aldermen similar to a fourth class city, and levies and collects taxes consistent with the laws governing a fourth class city. In addition, numerous ordinances and official records refer to Brownington as a city.

While Section 72.040, RSMo 1994, allows voters within the Village to elect by majority vote to become a fourth class city, there is no documentation to indicate that the classification of Brownington was ever officially changed from a village to a fourth class city.

To alleviate citizen concern on this issue, and ensure that the city is operating within the appropriate section of the statutes, the Board of Aldermen should review this situation with an attorney. If the classification has not legally been changed to a fourth class city, the board should consider securing a vote to approve the change to a fourth class city.

WE RECOMMEND the Board of Aldermen consult legal counsel to determine the city of Brownington's classification.

AUDITEE'S RESPONSE

The city will consult with legal counsel.

2.

Expenditures

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past several years, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$1,624 for gravel and \$1,231 for hauling gravel.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an opportunity to participate in the city's business.

Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. A company owned by the brother of a board member was paid \$2,355 in October 1997, for siding for the city's community building. The minutes of the board meeting where this purchase was discussed do not include details of the vote by specific board members, and give no indication that the brother abstained from voting on this purchase. While city officials indicate that the city paid a wholesale price for the siding, there is no indication that bids were obtained from any other source.

Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented so that the public has assurance that no city official or agent has profited improperly. In addition the Board of Aldermen should consider establishing a policy which addresses these types of situations and provides a code of conduct for city officials.

- C. The city receives state motor vehicle-related revenues and deposits them into the General Fund. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes including policing, signing, lighting, and cleaning of roads and streets. The city has not established a separate fund or separate accounting for those revenues and expenditures and does not monitor the use of these funds to ensure compliance with the Missouri Constitution.

During the year ended June 30, 1999 the city deposited \$3,078 in state motor vehicle related-revenues into the General Fund, and spent \$6,075 for street repair. However, during the four years ended June 30, 1999, state motor vehicle-related revenues totaled \$12,189 compared to total street-related expenditures of \$11,468.

To ensure compliance with the Missouri Constitution, the city should maintain a separate fund or separate accounting of motor vehicle-related receipts and ensure these receipts are used only for the purposes allowed by the constitution. The unspent balance of street revenues should be accounted for separately along with future receipts.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures.
- B. Avoid apparent conflicts of interest. Also, in the future, if a relative of a board member is considered to provide services for the city, that member should abstain from voting on the purchase and that action should be adequately documented in the board minutes.

- C. Establish a separate fund or accounting of state motor vehicle-related revenues to ensure funds are spent in accordance with the Missouri Constitution.

AUDITEE'S RESPONSE

- A. *The Board concurs and will look into establishing a bidding policy.*
- B. *In the future, the city will ensure that similar situations are documented in the board minutes.*
- C. *We will implement this recommendation.*

3. Budgets and Financial Reporting

- A. The city does not prepare and adopt annual budgets. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding fiscal years.

- B. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the board of aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.
- C. Annual financial reports have not consistently been filed with the State Auditor's office. Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in accordance with state law, and make periodic comparisons between budgeted and actual revenues and expenditures.

- B. Publish semi-annual financial statements as required by state law.
- C. Submit annual reports of financial transactions to the State Auditor's office as required by state law.

AUDITEE'S RESPONSE

A. *As soon as we obtain some example budget forms, we will begin work on preparing city budgets.*

B&C. We plan to implement these recommendations.

4.	Property Tax Procedures
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- A. The City Collector manually prepares the tax books from assessment data received from the county. No independent verification of the tax book information or totals is performed by the City Clerk.

Section 94.290, RSMo 1994, requires the city clerk to make the tax books and charge the city collector with the full amount of taxes levied. Without this proper segregation of duties between the City Clerk and City Collector, the internal control over this process is weakened. Verification of tax book information and totals is necessary to ensure the amount of taxes charged to the City Collector is complete and accurate.

- B. The City Collector does not prepare annual reports of tax collections and delinquent taxes. Sections 79.310 and 94.320, RSMo 1994, require the City Collector to make annual reports of tax collections and delinquent taxes.

Detailed annual reports which comply with state law and are classified by type of tax would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements, and additions. Without such a report, examined by the Board of Aldermen, any errors or irregularities that might occur are likely to go undetected.

- C. The City Collector does not charge the correct penalty on delinquent taxes. The City Collector currently charges no penalty for taxes paid within one year of being due, and 18 percent for each full year the taxes are delinquent after the first year. Section 140.100.1, RSMo 1994, currently provides a penalty of two percent per month up to a maximum of 18 percent per year for each delinquent tax bill.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Clerk to extend the current tax books and charge the City Collector with the amount of taxes, or at a minimum, document procedures performed to verify the accuracy of the tax book totals.
- B. Require the City Collector to prepare detailed annual reports as required by state law which summarize property tax activity and which can be used to facilitate the reconciliation of taxes charged, taxes collected, and delinquent taxes.
- C. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.

AUDITEE'S RESPONSE

- A. *In the future, the accuracy of the tax book totals will be verified.*
- B. *We intend to implement this recommendation.*
- C. *This has already been implemented.*

5. Ordinances, Board Minutes, and Records
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- A. Our review of the city ordinances disclosed the following concerns:
 - 1. The city's ordinance book is not complete. Several ordinance numbers are not included in the book, two ordinances have the same number, and there is no index of all ordinances passed by the city.
 - 2. The city has not adopted a formal description of the duties of city officials or fixed the compensation of the City Collector by ordinance. Also, the city has not adopted an ordinance establishing the term of office for the City Clerk. Section 79.270 and 79.290, RSMo 1994, require the compensation and duties of city officials to be set by ordinance. Section 79.320, RSMo 1994, requires the term of office of the City Clerk be fixed by ordinance.
 - 3. The city has not prepared ordinances to document the approved tax levy for each year. Section 94.210, RSMo 1994, states the board of aldermen shall fix the annual rate of tax levy by ordinance for each tax year.

Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the ordinances be maintained in a

complete, well organized, and up-to-date manner. Such items as duties and compensation of city officials and the annual tax levy should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

- B. The board minutes are prepared and signed by the City Clerk, but the minutes are not signed by the Mayor. The board minutes should be signed by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. A tentative agenda is prepared and posted for each board meeting; however, the agenda is usually in a standard form and does not disclose specific information to be discussed for the upcoming meeting.

To adequately inform the residents of the business to be discussed during the board meeting and to ensure compliance with the Sunshine Law, the tentative agenda should summarize the topics to be discussed during the meeting.

- D. The city has an ordinance regarding public access to city records, but the policy does not provide citizens with a name and address where requests should be sent. In addition, the city has not appointed a custodian to be responsible for city records. The city does not have a city hall and city records are maintained at the personal residences of various city officials.

Section 610.023, RSMo Cumulative Supp. 1998 indicates that each public governmental body is to appoint a custodian who is to be responsible for the maintenance of that body's records and establishes guidelines for making city records available to the public. To ensure compliance with state law, the city's policy should indicate the location of city records, the persons responsible for maintaining each record, and detailed instructions for citizens to request access to public records and how the city will handle these requests.

WE RECOMMEND the Board of Aldermen:

- A. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.
- B. Ensure board minutes are signed by the Mayor to attest to their completeness and accuracy.
- C. Require the tentative agenda to summarize the topics to be discussed during the board meeting.
- D. Establish written policies and procedures regarding the location of and public access to city records as required by state law.

AUDITEE'S RESPONSE

A. *We will start by preparing an index and work on updating existing ordinances and pass new ordinances as required.*

B&C. *These recommendations have already been implemented.*

D. *We will expand our current ordinance to address these issues.*

6. Accounting Controls and Procedures
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- A. The City Clerk also serves as the City Treasurer, and with the exception of the functions related to the collection of property taxes, this individual is responsible for most of the record keeping duties of the city. These duties include receiving and depositing monies, preparing invoices for payment, preparing and co-signing checks, performing bank reconciliations, and preparing monthly financial reports. Neither the board nor other personnel independent of the cash custody and record keeping functions provide adequate supervision or an independent review of the work performed by the City Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. This situation does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not feasible, the Board of Aldermen should, at a minimum, require someone having no access to cash and no record keeping responsibilities receive and review the bank statements and bank reconciliations.

- B. Receipt slips are not issued for all monies received. To help ensure receipts are properly recorded and deposited, prenumbered receipt slips should be issued for all monies received. The receipt slips should indicate the method of payment (ie. cash, checks, or money orders) and the composition should be reconciled to the bank deposits on a periodic basis.

- C. Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- D. The City Clerk, the Mayor, and two of the Aldermen are authorized to sign checks; however, none of these officials are bonded. In addition, the City Collector is responsible for collecting all city taxes and is not bonded. Failure to bond all persons with access to assets exposes the city to risk of loss.

WE RECOMMEND the Board of Aldermen:

- A. Provide for an adequate segregation of duties or the performance of independent reconciliations and reviews of the accounting records.
- B. Require prenumbered receipt slips to be issued for all monies received. In addition, the method of payment should be recorded on the receipt slips and the composition of receipts should be reconciled to deposits on a periodic basis.
- C. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- D. Obtain bond coverage for all persons with access to city assets.

AUDITEE'S RESPONSE

A. *This recommendation has been implemented. All board members and the mayor currently review bank statements and financial reports.*

B&C. *We will implement these recommendations.*

D. *We will look into obtaining bond coverage.*

7.	Street Maintenance Plan
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An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

We do not feel a formal plan will improve our situation. If a road needs gravel, we will gravel it. If a road needs grading, we have it graded.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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